

Bimonthly Newsletter on Chinese Investment in Brazil - nº 6

July/Aug 2018
Released

October 23rd 2018

1^o YEAR OF THE CHINESE INVESTMENT NEWSLETTER

The Ministry of Planning, Development and Management (MPDG) has signed in 2015 the Framework Agreement with its Chinese counterpart, the National Development and Reform Commission (NDRC). Since then, the MPDG has been tightening its relationship with its Chinese counterpart, paying particular attention to infrastructure investments. The main result of this relationship was the creation of the Brazil China Cooperation Fund for Expansion of Production Capacity (Brazil-China Fund), of which the Secretariat for International Affairs (Seain) of the Ministry is the executive secretariat. The interest of Chinese investors in Brazil (and Latin America as a whole) has increased since 2015 and the Asian country is already prominent in the region in merger and acquisition investments.

In order to consolidate the information about Chinese investments in Brazil, Seain began in 2017 to divulge the Bi-monthly Newsletter on Chinese Investment in Brazil with data since 2003. Some adjustments in the Newsletter methodological approach and data collection were adopted afterwards.

The preparation of the document now comprise collaboration from other government agencies, such as the Chamber of Foreign Trade (Camex), the Brazilian Investment Information Network (Renai / MDIC), Brazilian Trade and Investment Promotion Agency (APEX/Brazil) and the Central Bank, in order to confirm and eventually complement data. As from the next edition the Newsletter will be divulged on a quarterly basis.

Section 1 — Chinese FDI in July - August 2018

In July-August of 2018 four Chinese investment projects were reported in Brazil, as shown below:

- 1). In July 2018, Sanxing Electric, a member of the Chinese group AUX that manufactures electric components, acquired an additional 49% of the company Nanssen based in Minas Gerais State. The amount was not disclosed. However, since 2015, when Sanxing acquired the first 51% share of Nanssen, approximately R\$ 30 million has been invested in the company. (SOURCE: em.com.br)
- 2). The Chinese investment group Fosun took control of the Guide Investments broker for US\$ 52 million, expanding its investments in Brazil in a total amount of US\$ 230 million. (SOURCE: Valor Econômico)
- 3). The Chinese company GsPAK, specialized in food packaging, announced investment worth an estimated amount of R\$ 100 million, which will create 400 jobs in the state of Alagoas. (SOURCE: Agência Alagoas).
- 4) Bitmain announced that it will open an office in Brazil in 2018 to expand its business. The company manufactures ASIC hardwares for mining cryptocurrencies. The company already operates in other countries such as USA, Israel and Switzerland. There was no disclosure of the invested amount. (SOURCE: criptomoedasfacil.com)

Investor company	Project or Company	Public / Private	Sector	Status ¹	UF	Value (US\$ million)	Modality of investment ¹
Sanxing Electric	Nanssen	NA ²	Energy	Confirmed	MG	NA	Merges&acquisition
Fosun	Guide Investimentos	Priv	Financial	Confirmed	SP	52	Merges&acquisition
GsPAK	-	NA	Paper/Cellulose	Announced	AL	100	Greenfield
Bitmain	-	NA	Technology	Announced	SP	NA	Greenfield

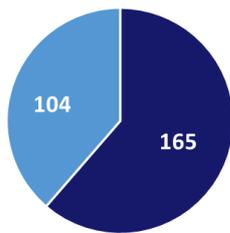
1 — Para metodologia, ver seção 5

2— Not Available

Section 2 — Compilation of Chinese investment in Brazil

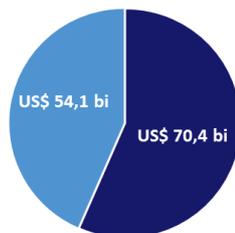
Chinese Projects in Brazil — 2003 - Aug2018

Number of Projects



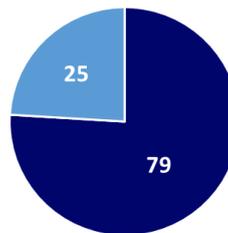
■ Announced ■ Confirmed

Projects Value



Project Types — 2003/Aug 2018

Number of Projects



■ Brownfield ■ Greenfield

Projects Value



The graphs above show the aggregate of all 269 announced and confirmed projects mapped by this *Newsletter* from 2003 to 2018. The total amount of these investments is worth \$ 124 billion. The confirmed investments (124 projects) alone correspond to a total amount of US \$ 54.1 billion and were mainly mergers and acquisitions, hence brownfield investments.

The graphs below present a comparison between Jan / Aug 2017 and Jan / Aug 2018. Despite the little variation in the number of projects there was a strong variation in the value of confirmed projects in 2017. This variation is due to the acquisition by State Grid, in January 2017, of 54% of CPFL shares in the State of São Paulo, worth US\$2,7 billion (there maining value relative to when State Grid acquired a further 40% of CPFL's shares, was only announced in November/December 2017, so its values are not included in these charts).

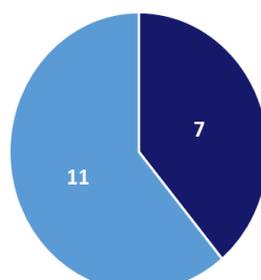
Number of projects per periods
Jan/Ago 2017 x Jan/Ago2018 (em US\$ milhões)

Announced



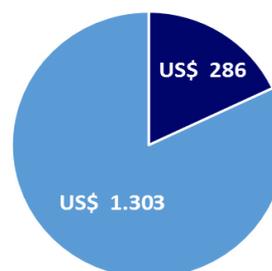
■ Jan/Aug 2017 ■ Jan/Aug 2018

Confirmed



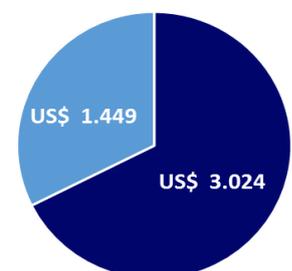
Investment amount per period (US\$ million)
Jan/Ago 2017 x Jan/Ago2018 (em US\$ milhões)

Announced



■ Jan/Aug 2017 ■ Jan/Aug 2018

Confirmed



Retroactive Adjustments

By the completion of the present Newsletter, one project referring to 2017 was cancelled, worth US\$ 60 million. This is the China HNA purchase of 31% of Odebrecht's stake in the RIOgaleão consortium.

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Section 3 — Announcements of Chinese investment intentions in Brazil — Jul/Aug 2018

July 12th — Jiangsu Communication Clean Energy Technology (CCETC), a Chinese company in the energy sector, announced the intention to invest in two thermoelectric plants, in the state of Bahia (Camaçari Muricy II and Pecém Energia). The investment is estimated at R \$ 400 million and the two projects shall produce 143 megawatts each. (SOURCE: ESTADÃO).

August 15th — Hanergy Holdings Group, specialized in clean energy, plans to invest US \$ 1 billion in the Electronic Components sector, specifically in solar photovoltaic film factory, in the city of Uberaba, Minas Gerais. (SOURCE: Uberaba.mg.gov.br)

Section 4 — News

July 05th — The Chinese company GsPAK, specialized in food packaging, met government members of the State of Paraná. They are studying the installation of a production unit in the state. The Chinese company is expecting to receive guidance from the Paraná Development Agency (APD) to include its project in the “Paraná Competitivo” program. (SOURCE: AEN - Agencia de Notícias do Paraná e Diário dos Campos).

July 15th — The government of Mato Grosso has signed three protocols of intentions with the Government of China intending partnerships in the livestock and agriculture sector. The protocols of intentions foresee partnerships in new refrigeration plants, new technologies for livestock and agriculture, exchange people and experiences between the government of Shaanxi and Mato Grosso. (SOURCE: cenariomt.com.br).

July 17th — Representative members of the Agricultural Defense Agency (Adapec) received a Chinese group interested to investing in Frozen meat, in the State of Tocantins, to expand meat exports to Southeast Asian countries. (SOURCE: connectiontocantins).

July 18th — Caoa Chery has announced that it will expand the Jacareí-SP plant and hire an additional 120 employees to produce the brand's new car model. The expansion value was not disclosed. (SOURCE: G1).

July 25th — The phone service company Oi and the Chinese information technology company Huawei, have signed a cooperation agreement for an expansion of the optical network, aiming to expand the 4G network and prepare the country for 5G technology. According to its recovery plan, Oi intends to attract investments in the order of R\$ 4 billion. (SOURCE: Gazeta do Povo)

July 31st — The Chinese government, represented by Chinese Ambassador to Brazil, expressed interest in the investment of Chinese companies in the area of urban mobility, especially in light rail vehicles (LRV). (SOURCE: MacaHub)

August 21st — CPFL Energia, controlled by Chinese State Grid Company, has expressed its intention to join Cesp's privatization auction scheduled for 10/02/2018. (SOURCE: canalenergia.com)

August 30th — The BBKA Group renegotiated with the Government of Mato Grosso do Sul State, the resumption of investments in the Maracaju city. The project estimates investment in the amount of almost R\$ 400 million in 2019 and the creation of more than 1,500 jobs. Negotiations began in 2013 and although the work was postponed the Chinese group affirmed that the investment is maintained and the work will be completed in 2019. The investment has already been considered by this Newsletter in 2013; there are, hence, no changes in the number of projects confirmed, only the value should be updated. (SOURCE: Correio do Estado e SEMAGRO/MS)

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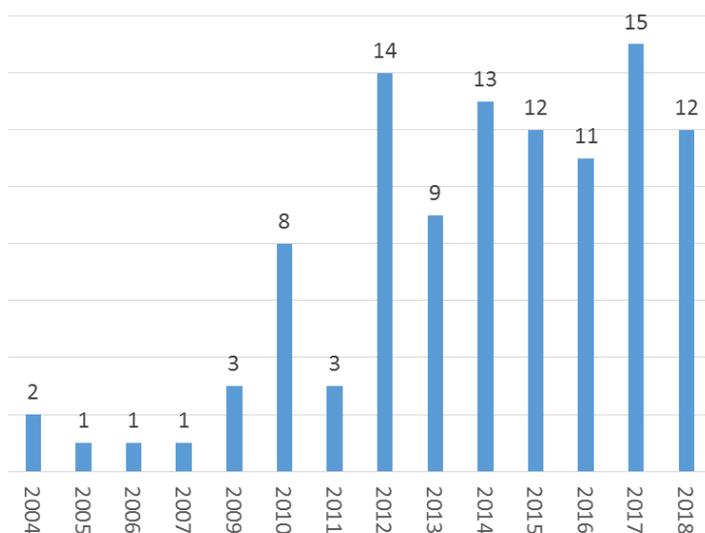
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Section 5 - Analytical Synthesis. 1st YEAR EDITION.

The main type of Chinese investment is mergers and acquisitions (brownfield). Chinese investors are seeking to acquire domestic companies already relatively consolidated in their market niches, in order to minimize the risks of investing in a relatively new market for Chinese Investors.

Model	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Brownfield	3	6	1	1	4	2	7	22	20	27	17	26	32	20	23	10
Greenfield	0	3	1	1	1	1	3	7	2	5	3	3	1	4	5	8

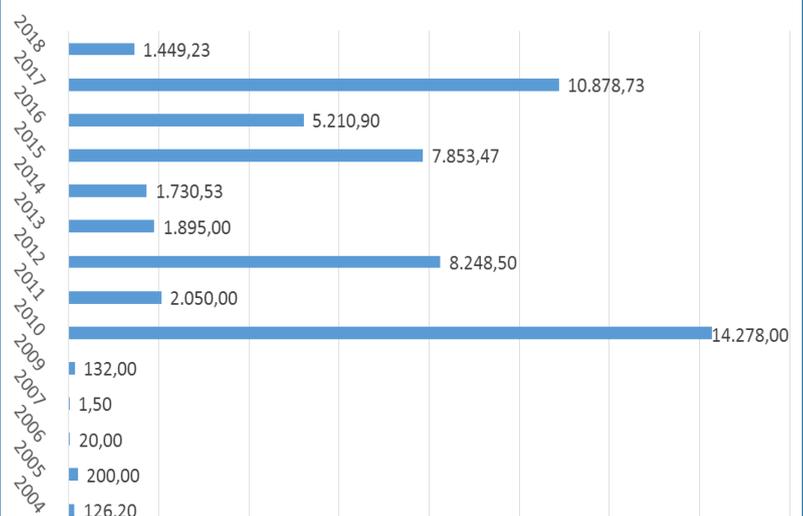
Number of Confirmed Projects



The chart on the left shows an upward trend in the number of Chinese confirmed investment projects in Brazil, due, at least in part, to the sectorial diversification of the projects. Certain patterns can be identified over time. From 2010 to 2012, for example, there were strong investments in value terms in oil, gas and mining. Between 2013 and 2016, the automotive and mining industry were the leading sectors. Since 2014 there is an inflow of investments in the energy sector.

The chart on the right shows the values of the confirmed projects over time. It is remarkable that there is not a clear pattern, since the variance of amounts invested is very high, even after 2010, the year that marks the beginning of Chinese protagonism in foreign investments in Brazil. Not even the economic crisis of 2014-2017 has altered the pattern of the investment inflows, since in both 2015 and 2017 there was important inflow totalling about US\$ 19 billion. The Investment flows seems to be determined (at least partially) by the sense of opportunity, which is in line with the brownfield pattern that characterizes Chinese presence in Brazil.

Value of Confirmed Projects



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Section 6 – Methodology

Confirmed investment (Confirmed group) — An Investment is included in this category when it is directed to projects or companies in Brazil, whose information can be confirmed by more than one data source, including institutional pages of companies or institutions directly involved.

Announced Investment (Announced group) — An Investment is included in this category when there are formal announcements of future investment, thus becoming subject to be monitored by the market and interested institutions. When such Investment is confirmed it leaves this group and joins the “Confirmed” group.

Greenfield — An Investment is included in this category when the investor puts resources into the construction of a new structure necessary for the operation. In other words, when the operation is not based on a pre-existing structure.

Brownfield— An Investment is included in this category when there is a pre-existing Project or a project to be updated that will be based on an existing structure.

Sources:

Websites of the named companies, federative entities, China’s Embassy in Brasil and Brazil’s Embassy in China, database from China-Brazil Business Council, Financial Times (FT), The Heritage Foundation & American Enterprise Institute and other referenced communication vehicles, highlighted: Agência Brasil, Aiddata, Bloomberg, China Daily, Dealogic, Estado de S. Paulo, Exame, Folha, Gazeta Mercantil, G1, Investing.com, Istoé, Macauhub, Reuters, Terra, UOL, Valor Econômico.

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Link to the Newsletter - <http://www.planejamento.gov.br/assuntos/internacionais/boletim-bimestral-de-investimentos>